

Message Text

UNCLASSIFIED

PAGE 01 LONDON 05800 01 OF 03 141600Z

53

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02

USIA-15 AID-05 EB-07 NSC-05 CIEP-02 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 L-03 H-02 PA-02 PRS-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

DOT-00 ABF-01 FSE-00 /134 W
----- 064568

P R 141553Z APR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 0786

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 05800

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 05800 01 OF 03 141600Z

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD APRIL 7

THROUGH APRIL L3, L976.

SUMMARY. THE IMPACT OF INITIAL SKIRMISHES IN THE BAR-GAINING OVER THE NEXT PHASE OF WAGE RESTRAINT CONTINUED TO BE A FACTOR IN THE FOREIGN EXCHANGE MARKETS, AS STERLING AGAIN DROPPED TO A NEW LOW BEFORE RECOVERING SLIGHTLY. THE RISE IN INDUSTRIAL PRODUCTION COUPLED WITH A SMALL CUT IN THE RATE FOR HOME MORTGAGES INDICATED ACTUAL OR POTENTIAL STRENGTH IN KEY SECTORS OF THE ECONOMY. THE OUTLOOK FOR INVESTMENT DURING THE SECOND HALF OF THE YEAR BRIGHTENED AS COMPANIES BEGAN TAKING ADVANTAGE OF THE GOVERNMENT'S ACCELERATED INVESTMENT SCHEME. THE GOVERNMENT'S INDUSTRIAL POLICY MOVED A STEP CLOSER TO FRUITION AS SIX COMPANIES AGREED TO DISCUSS ENTRY INTO PLANNING AGREEMENTS WITH THE GOVERNMENT. END SUMMARY.

1. INDUSTRIAL PRODUCTION. THE FEBRUARY INDEX OF INDUSTRIAL PRODUCTION (1970 EQUALS 100) STOOD AT 101.4, A RISE OF 0.9 PERCENT FROM THE REVISED JANUARY FIGURE OF 100.5. HOWEVER, THE INDEX OF MANUFACTURING PRODUCTION WHICH ACCOUNTS FOR ABOUT THREE QUARTERS OF TOTAL INDUSTRIAL PRODUCTION FELL BY 0.3 PERCENT IN FEBRUARY TO A LEVEL OF 101.4 FROM ITS REVISED JANUARY LEVEL OF 101.7. THIS DECLINE WAS DUE TO LOWER OUTPUT IN METAL MANUFACTURE AND "TEXTILES, LEATHER AND CLOTHING." IN THE THREE MONTHS THROUGH FEBRUARY THE OVERALL INDEX HAS RISEN AT AN ANNUAL RATE OF 4.8 PERCENT. HOWEVER, FOR THE YEAR THROUGH FEBRUARY, INDUSTRIAL PRODUCTION DECLINED BY 3.4 PERCENT. THE COMPARABLE CHANGES IN THE MANUFACTURING INDEX ARE A RISE OF 3.6 PERCENT OVER THREE MONTHS AND A DECLINE OF 5 PERCENT OVER 12 MONTHS.

THE INDUSTRIAL PRODUCTION INDEX IS DERIVED FROM DELIVERIES AND NOT ACTUAL OUTPUT. AS A RESULT THE OVERALL INDEX IS BELIEVED TO HAVE OVERSTATED THE LEVEL OF OUTPUT BY 0.5, 1.0 AND 0.25 PERCENT DURING THE SECOND, THIRD AND FOURTH QUARTERS OF 1975, RESPECTIVELY. HOWEVER, IN LIGHT OF RECENT UPWARD REVISIONS, ACTUAL OUTPUT MAY HAVE RISEN BETWEEN THE THIRD AND FOURTH QUARTERS OF 1975 BY OVER 0.5 PERCENT MORE THAN INDICATED BY THE INDEX.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 05800 01 OF 03 141600Z

2. STERLING. THE RECENT DROP OF OVER 9 PERCENT IN THE TRADE WEIGHTED VALUE OF STERLING HAS JEOPARDIZED THE GOVERNMENT'S SCHEDULE FOR REDUCING THE RATE OF INFLATION TO 10 PERCENT AT ANNUAL RATE BY THE END OF 1976. IN ANSWER TO A QUESTION IN PARLIAMENT, PRICES AND CONSUMER PROTECTION SECRETARY SHIRLEY WILLIAMS SAID THAT CURRENT STUDIES INDICATE THAT A 5 PERCENT DROP IN THE VALUE OF STERLING LEADS TO AN ADDITIONAL RISE OF BETWEEN 1 AND 1.5 PERCENT-

AGE POINTS IN RETAIL PRICES OVER A 12 MONTH PERIOD. IF THIS RELATIONSHIP IS VALID, THEN THE RATE OF RETAIL PRICE INFLATION DURING THE NEXT 12 MONTHS COULD BE ABOUT 2-3 PERCENTAGE POINTS ABOVE THE GOVERNMENT'S TARGET.

3. INVESTMENT INCENTIVES. IN HIS RECENT SERIES OF MICRO-ECONOMIC MEASURES TO REDUCE THE RATE OF INCREASE OF UNEMPLOYMENT AND HEAD OFF BOTTLENECKS APPEARING EARLY IN THE EXPECTED RECOVERY, THE CHANCELLOR MADE 120 MILLION POUNDS AVAILABLE TO FIRMS WILLING TO BRING FORWARD PLANNED INVESTMENT SCHEMES. THE GOVERNMENT FUNDS WERE INTENDED TO COVER INTEREST RELIEF GRANTS OR BE USED FOR CONCESSIONARY LOANS FOR INVESTMENT PROJECTS BEGUN BY SEPTEMBER 30, 1976. TO DATE SOME 35 MILLION POUNDS HAS ALREADY BEEN COMMITTED AND THERE IS STRONG DEMAND FROM FIRMS FOR THE REMAINING 85 MILLION. ABOUT 700 MILLION POUNDS IS

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 05800 02 OF 03 141602Z

53

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02

USIA-15 AID-05 EB-07 NSC-05 CIEP-02 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 L-03 H-02 PA-02 PRS-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

DOT-00 ABF-01 FSE-00 /134 W
----- 064597

P R 141553Z APR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 0787

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

UNCLAS SECTION 02 OF 03 LONDON 05800

EXPECTED TO RESULT FROM THIS PROGRAM. THUS EVERY POUND
OF GOVERNMENT MONEY IS BRINGING FORWARD 5.8 POUNDS OF PRI-
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 05800 02 OF 03 141602Z

VATE INVESTMENT. THE ACCELERATED INVESTMENT SCHEME AP-
PEARS TO BE ACHIEVING ITS PURPOSE.

4. MORTGAGE RATES DROP. MOVING IN A DOWNWARD DIRECTION
FOR THE FIRST TIME SINCE 1971, THE INTEREST RATE ON HOME
MORTGAGES WAS REDUCED FROM 11 TO 10.5 PERCENT. AFTER THE
SHARP DROO IN OTHER INTEREST RATES, THE BUILDING SOCI-
ETIES (SAVINGS AND LOANS) HAD BEEN UNDER STRONG PRESSURE
TO CUT THEIR MORTGAGE RATES THE DECISION WAS DELAYED
UNTIL AFTER THE BUDGET BECAUSE OF OPPOSITION FROM MANY
MORTGAGE LENDERS WHO BELIEVED THAT THEIR MAIN COMPETITION
CAME FROM LONGER TERM GOVERNMENT SECURITIES YIELDING A RE-
TURN COMPARABLE TO WHAT THEY WERE OFFERING TO DEPOSITORS.
THE SMALLNESS OF THE DROP REFLECTED THEIR POSITION. WHILE
WELCOMING THE DROP BOTH THE GOVERNMENT AND THE HOME BUILD-
ING INDUSTRY WERE DISAPPOINTED AT THE SIZE OF THE CUT.
WITH THE INFLOW OF SAVINGS CONTINUING AT VERY HIGH LEVELS,
ANOTHER CUT IN THE RATE MAY OCCUR LATER IN THE YEAR.

5. CAR REGISTRATIONS. CAR REGISTRATION FIGURES FOR MARCH
SHOW THAT FORD EDGED PAST BRITISH LEYLAND ACCOUNTING FOR
26.9 PERCENT OF THE 119,900 AUTOMOBILES REGISTERED. HOW-
EVER, OVER THE FIRST THREE MONTHS OF THE YEAR. LEYLAND
CONTINUED TO LEAD THE LIST BUT WITH A MUCH REDUCED SHARE
OF THE MARKET. OVER THAT PERIOD REGISTRATIONS TOTALED
358,200, UP 1.1 PERCENT FROM THE FIRST QUARTER OF 1975.
BRITISH LEYLAND'S SHARE DROPPED FROM 34.5 PERCENT TO 28.5
PERCENT, WHILE FORD'S ROSE FROM 20.1 TO 25.6 PERCENT.
IMPORT PENETRATION ALSO INCREASED FROM 31.4 PERCENT DUR-

ING THE FIRST QUARTER OF 1975 TO 34.5 PERCENT THIS YEAR.

6. PLANNING AGREEMENT DISCUSSIONS ANNOUNCED. THE LONG EXPECTED ANNOUNCEMENT OF THE NAMES OF COMPANIES CONSIDERING THE ENTRY INTO PLANNING AGREEMENTS INDICATES THAT SIX FIRMS

- BABCOCK AND WILCOX
- CLARKE CHAPMAN
- HEAD WRIGHTSON
- WHESSE
- GEC
- REYROLLE PARSONS

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 05800 02 OF 03 141602Z

HAVE AGREED TO BEGIN DISCUSSIONS WITH THE GOVERNMENT ABOUT THE TERMS OF PLANNING AGREEMENTS. SUCH AGREEMENTS (SEE LONDON A-999, DATED 11/28/75) ARE DESIGNED TO CREATE A CLOSER RELATIONSHIP BETWEEN THE GOVERNMENT AND THE 100 OR SO LARGEST PRIVATE CORPORATIONS. THEIR GOAL IS AN INDUSTRIAL PLANNING ARRANGEMENT ALONG THE LINES OF THE FRENCH MODEL. INDUSTRY SECRETARY ERIC VARLEY MADE THE ANNOUNCEMENT; HOWEVER, EACH OF THE COMPANIES EMPHASIZED THAT ACTUAL AGREEMENTS WERE SOME WAY IN THE FUTURE. THE FIRST FOUR ON THE LIST ARE PROCESS PLANT MANUFACTURERS WHICH DEPEND ON THE GOVERNMENT FOR AN IMPORTANT PART OF THEIR BUSINESS WHILE THE LATTER TWO ARE LIMITING DISCUSSIONS TO THE TURBO-GENERATOR SIDE OF THEIR ACTIVITIES. THE ANNOUNCEMENT REPRESENTS AN OPENING WEDGE IN A HERETOFORE SOLID INDUSTRY FRONT WHICH SAW LITTLE GAIN TO BE HAD FROM SUCH AGREEMENTS. THE CONSIDERABLY MORE FLEXIBLE GOVERNMENT POSITION ON THE SHAPE AND NATURE OF THE PROPOSED RELATIONSHIP HAS HELPED TO BREAK DOWN INDUSTRY'S SUSPICIONS.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 05800 03 OF 03 141607Z

53

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02

USIA-15 AID-05 EB-07 NSC-05 CIEP-02 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 L-03 H-02 PA-02 PRS-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

DOT-00 ABF-01 FSE-00 /134 W
----- 064767

P R 141553Z APR 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 0788

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 03 OF 03 LONDON 05800

7. EXCHANGE RATE AND GOLD

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 05800 03 OF 03 141607Z

DATE	EXCHANGE RATE (\$)	EFFECTIVE DEPRECIATION (PERCENT)	GOLD
4/7	1.8685	35.8	128.00
4/8	1.8435	36.8	128.50
4/9	1.8380	37.1	127.75
4/12	1.8430	36.8	127.25
4/13	1.8525	36.4	128.50
CHANGE 4/6-4/13	DN .0090	UP 0.3	UP 0.25

8. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/7	0.85	2.17	4.30
4/8	0.87	2.40	4.30
4/9	1.00	2.70	4.75
4/12	0.85	2.60	4.60
4/13	0.78	2.35	4.35

CHANGE 4/6-4/13 DN 0.09 DN 0.02 UP 0.10

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/7	4-3/4	5-3/8	6
4/8	5	5-3/8	6
4/9	5	5-3/8	6
4/12	5-1/4	5-1/2	6
4/13	5	5.1/2	6

CHANGE 4/6-4/13 UNCHANGED UP 1/8 UNCHANGED

10. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/7	8-5/16	8-11/16	9-1/16
4/8	8-5/16	8.23/32	9-3/32
4/9	8-3/8	8-13/16	9-5/32
4/12	8-1/4	8-3/4	9 3/16
4/13	8-3/16	8-11/16	9-1/4

CHANGE 4/6-4/13 DN 5/32 DN L/16 UP L/16

11 THE MINIMUM LENDING RATE REMAINS UNCHANGED AT 9 PER-
CENT. ARMSTRONG

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON05800
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760141-0790
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760463/aaaacbkrltel
Line Count: 360
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: oatisao
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUN 2004 by SilvaL0>; APPROVED <01 SEP 2004 by oatisao>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD APRIL 7 THROUGH APRIL L3, L976.
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006